

# Information Notice

## May 2010 Supplement to the Options Disclosure Document

On May 24, 2010, the SEC approved a supplement to the Options Disclosure Document (ODD) ([www.optionsclearing.com/components/docs/May\\_2010\\_ODD\\_Definitive\\_Supplement.pdf](http://www.optionsclearing.com/components/docs/May_2010_ODD_Definitive_Supplement.pdf)). The ODD contains general disclosures on the characteristics and risks of trading standardized options. The recently approved supplement adds new disclosure regarding the characteristics of options on conventional index-linked securities,<sup>1</sup> as well as the special risks of these options. In addition, the ODD is amended to add BATS Exchange, Inc. and its corporate address to the front inside cover page of the ODD. As with other supplements to the ODD, this should be read in conjunction with the current ODD, Characteristics and Risks of Standardized Options ([www.optionsclearing.com/components/docs/riskstoc.pdf](http://www.optionsclearing.com/components/docs/riskstoc.pdf)).

Rule 9b-1 under the Securities Exchange Act requires broker-dealers to deliver the ODD and supplements to customers.<sup>2</sup> FINRA has similar requirements in FINRA Rule 2360(b)(11)(A)(1), which requires firms to deliver the current ODD to each customer at or before the time the customer is approved to trade options. In addition, FINRA Rule 2360(b)(11)(A)(1) requires firms to distribute a copy of each ODD supplement to customers who previously received the ODD. Firms must deliver the ODD supplements no later than the time a customer receives a confirmation of a transaction in the category of options to which the amendment pertains. Rule 2360(b)(11)(A)(3) requires FINRA to advise firms when revisions to the ODD are made.

June 15, 2010

### Suggested Routing

- Compliance
- Institutional
- Legal
- Options
- Senior Management
- Trading

### Key Topics

- Conventional Index-Linked Options
- Options
- Options Disclosure Document

### Referenced Rules & Notices

- FINRA Rule 2360
- NTM 98-3
- SEA Rule 9b-1

To comply with the requirements of FINRA Rule 2360(b)(11)(A)(1), firms may distribute the ODD supplement in various ways, including, but not limited to, one of the following:

1. conducting a mass mailing of the supplement to all of its customers approved to trade options who have already received the ODD; or
2. distributing the supplement to a customer who has already received the ODD not later than the time a customer receives a confirmation of a transaction in the category of options to which the amendment pertains.

FINRA reminds firms that they may electronically transmit documents that they are required to furnish to customers under FINRA rules, including the ODD and supplements thereto, provided the firm adheres to the standards contained in the May 1996 and October 1995 Securities Exchange Commission Releases,<sup>3</sup> and as discussed in *Notice to Members 98-3* ([www.finra.org/notices/ntm/98-3](http://www.finra.org/notices/ntm/98-3)). Firms may also transmit the ODD and supplements to customers who have consented to electronic delivery through the use of a hyperlink.

Questions regarding this *Notice* may be directed to Kathryn M. Moore, Assistant General Counsel, Office of General Counsel, at (202) 974-2974.

## Endnotes

- 1 For purposes of the ODD, conventional index-linked securities refer to non-convertible debt of an issuer (with a term of at least one year, but not greater than 30 years) that provides for the payment at maturity of a cash amount based directly on the performance of a specified underlying "reference asset."
- 2 17 CFR 240.9b-1.
- 3 See Securities Act Release No. 7288 (May 9, 1996) 61 FR 24644 (May 15, 1996) and Securities Act Release No. 7233 (October 6, 1995) 60 FR 53458 (October 13, 1995).
- 4 See Securities Act Release No. 58738 (October 6, 2008) 73 FR 60371 (October 10, 2008).